

TARIFF ACTION MEMORANDUM

Date: March 22, 2021

File: TA35-998

Date TA Filed: February 25, 2021

Name of Utility: Alaska Universal Service Administrative Company (AUSAC)

Statutory End Date: April 9, 2021

Tariff Recommendations:

The Commission should acknowledge the midcourse calculation for the 2021 Alaska Universal Service Fund (AUSF) surcharge factor. In addition, the Commission should retain the ten percent surcharge factor for the 2021 AUSF.

Reasons for the above indicated recommendation:

See attached memorandum.

Signed: John Paul Manaois Title: Common Carrier Specialist
Jess Manaois

Commission decision re this recommendation:

	DATE (If different than 4/1/2021)	I CONCUR	I DO NOT CONCUR	I WILL WRITE A DISSENTING STATEMENT*
Pickett	_____	<u>RMP</u>	_____	_____
Kurber	_____	<u>KKI</u>	_____	_____
Scott	_____	<u>AGS</u> AGS	_____	_____
Sullivan	_____	<u>DS</u> DS	_____	_____
Wilson	_____	<u>JWW</u>	_____	_____

Special Instructions to Staff: _____

*If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction Letter Order.

STATE OF ALASKA
The Regulatory Commission of Alaska
701 West 8th Ave., Suite 300
Anchorage, Alaska 99501-3469

M E M O R A N D U M

To: Robert M. Pickett, Chairman
Keith Kurber II
Antony G. Scott
Daniel A. Sullivan
Janis W. Wilson

Date: March 26, 2021

File: TA35-998

From: Jess Manaois ^{JM}
Common Carrier Specialist

Subject: Alaska Universal Service Administrative Company (AUSAC) – Alaska Universal Service Fund (AUSF) Midcourse Surcharge Factor Calculation.

RECOMMENDATIONS

Commission staff (Staff) recommends the Commission:

- a) Acknowledge the midcourse calculation for the 2021 AUSF surcharge factor; and
- b) Retain the capped ten percent surcharge factor for the AUSF for 2021 established by regulation.

PROCEDURAL HISTORY

The AUSF was established by regulation in 1999 (3 AAC 53.300 - 3 AAC 53.399).¹ The programs supported by the AUSF at that time included Dial Equipment Minute (DEM) weighting, State Lifeline (SLS), Public Interest Pay Telephones (PIPT), Local Exchange Carrier of Last Resort (COLR) and Carrier Common Line (CCL). The AUSF is funded by a surcharge on public utilities and other voice carriers that provide intrastate telecommunications service. These entities must pay the surcharge on their annual intrastate gross revenues from end users, for the services listed in 3 AAC 53.340(a) (i.e. local, long distance, cellular, Voice over Internet Protocol (VoIP), etc.).² The AUSF surcharge may be passed through and collected from a company's end users.³ AUSAC is a member-based non-profit association that has been designated by the Commission

¹See Orders R-97-005(7)/R-97-006(7)/U-98-168(1), *Order Adopting Regulations and Changes to Manual; Opening Docket to Consider AUSF Administrator; and Establishing Meeting and Filing Requirements* (November 23, 1998); and R-97-005(8)/R-97-006(8)/U-98-168(2), *Order Adopting Regulations and Manual Amendments: Addressing Implementation Issues; and Requiring Filings* (December 30, 1998).

²See 3 AAC 53.340(a). A public utility that provides intrastate telecommunications service to the public, or to those classes of users as to be effectively available to the public for a fee, shall pay the surcharge to the AUSF.

³See Orders R-97-005(8)/R-97-006(8)/U-98-168(2) at 13.

to administer the AUSF.⁴ In accordance with 3 AAC 53.340(d), AUSAC is required to calculate and recommend an AUSF surcharge factor by October 1 of each year for the following calendar year.

In 2018, the Commission revised the regulation on AUSF that capped the AUSF surcharge at 10%, effective January 1, 2019; eliminated support for SLS and PIPT; implemented a two-year stepdown in DEM support for remaining eligible rural carriers;⁵ recast CCL and COLR as Essential Network Support (ENS) that would be capped at 2016 CCL and COLR support levels for each qualifying local exchange carrier (LEC) beginning January 1, 2019; and adopted the federal definition for remote areas to reduce ENS support in non-remote areas. The Commission also adopted a sunset deadline of June 30, 2023, for the AUSF.⁶

In addition to the required October 1 annual filing, 3 AAC 53.340(d) also provides AUSAC an opportunity on a quarterly basis, to recommend adjustments to the AUSF surcharge factor as necessary. Any recommended adjustments to the surcharge factor must be approved by the Commission prior to implementation.

On October 1, 2020, AUSAC submitted TA34-998 showing a calculation of the 2021 AUSF surcharge factor at 25.87%. However, this is above the 10% surcharge cap set out in 3 AAC 53.340(d). Therefore, AUSAC requested that the AUSF surcharge factor remain at 10%, and the AUSAC 2021 operating budget be approved, effective January 1, 2021.⁷ The Commission approved TA34-998.⁸

On February 25, 2021, AUSAC filed TA35-998 showing a midcourse calculation of the 2021 surcharge factor at 29.5%, which is above the 10% surcharge cap. AUSAC did not submit a tariff sheet.⁹

The Commission issued a public notice of TA35-998 on March 1, 2021, with public comments due March 31, 2021. To date, the Commission received no comments.

DISCUSSION

2021 AUSF Surcharge Factor

The AUSF surcharge factor is calculated based on the ratio of the total amount of estimated disbursements paid out of the AUSF for the supported programs over the total annual gross

⁴See *Order U-98-168(8), Order Designating AUSAC as Administrator of the AUSF, Amending and Approving Audit Plan, Specifying Changes in AUSAC's Quarterly Disbursement Report, Requiring Public Report Section to be Added to Website, and Closing Docket* (May 20, 2004).

⁵Beginning January 2021, AUSAC will no longer pay for DEM weighting (3 AAC 53.350(b)).

⁶See *Order R-18-001(5), Order Adopting Regulations*, dated October 24, 2018. The regulations were signed by the Lieutenant Governor on November 21, 2018.

⁷[TA34-998](#), *Tariff Advice Letter 34-998, Alaska Universal Service Fund 2021 Surcharge Factor and Administrative Costs*, filed October 1, 2020 (TA34-998).

⁸See [L2000398](#), dated November 5, 2020, in TA34-998.

⁹[TA35-998](#), *Tariff Advice Letter 35-998, Alaska Universal Service Fund Midcourse 2021 Surcharge Factor*, filed February 25, 2021 (TA35-998).

revenues from intrastate end users subject to the AUSF surcharge.¹⁰ Authorized miscellaneous disbursements, AUSAC's estimated 2021 operating budget, and a cash working capital adjustment factor (CWC Adj. Factor) are also included in the estimated amount of annual disbursements from the AUSF.

$$\text{AUSF Surcharge} = \frac{\text{ENS (COLR + CCL)} + \text{DEM}^{11} + \text{Misc.} + \text{AUSAC Budget} + \text{CWC Adj. Factor}}{\text{Gross Annual End User Revenue}}$$

In TA34-998, AUSAC calculated an AUSF surcharge factor of 25.87% for 2021. In TA35-998, AUSAC calculated a revised surcharge factor of 29.8% for 2021. However, consistent with the revised 3 AAC 53.340(d) that capped the AUSF surcharge factor, AUSAC did not request change to the 10% surcharge factor approved in TA34-998. Table 1 below shows AUSAC's calculation of the revised surcharge factor for 2021 filed in TA35-998, compared to the calculation of surcharge factor filed in TA34-998.

Table 1

		2021 Midcourse Calculation TA35-998	2021 TA34-998	Variance
1	DEM Weighting Support	\$0	\$0	\$0
2	State Lifeline Program	\$0	\$0	\$0
3	PIPT Support	\$0	\$0	\$0
	ENS			
4	COLR Support	\$7,460,305	\$7,460,305	\$0
	CCL Support			
5	Non-Pooling Companies	\$10,570,513	\$10,570,513	\$0
6	Pooling companies	\$4,890,886	\$4,890,886	\$0
7	Miscellaneous AUSF Disbursements			
8	AUSAC Budget	\$119,019	\$119,019	\$0
9	Total Estimated Disbursements (Lines 1+2+3+4+5+6+7+8)	\$23,040,723	\$23,040,723	\$0
10	Cash Working Capital Adjustment Factor	\$13,066,766	\$12,708,908	\$357,858
11	Total Estimated AUSF Support (Lines 9+10)	\$36,107,489	\$35,749,631	\$357,858
12	Gross Annual End User Revenues	\$121,337,241	\$138,179,710	(\$16,842,469)
13	AUSF Surcharge Rate (Line11/Line12)	29.75%	25.87%	

In addition to adjusting the reported revenue projection, AUSAC also updated the Cash Working Capital Adjustment Factor and projected AUSF balance to reflect the actual year-end 2020 AUSF balance. AUSAC also modified the estimate for the 2020 distribution shortage to show the actual year-end 2020 distribution shortage. These updates resulted in an increase of \$357,858 to the Cash Working Capital Adjustment Factor.

Cash Working Capital Adjustment Factor (Line 10)

The Commission has required AUSAC to maintain a Cash Working Capital Allowance that is 1.5 times its monthly expenses.¹² The Cash Working Capital Allowance is then netted against the

¹⁰3 AAC 53.340(d).

¹¹[3 AAC 53.350](#)(d) provides that beginning January 1, 2021, AUSAC may not pay DEM weighting support.

¹²See Order U-99-133(1), dated November 19, 1999; and TA2-998, *Staff Memorandum*, dated November

estimated cumulative AUSF balance surplus (i.e., the net of fund inflows and outflows) to come up with a Cash Working Capital Adjustment Factor.¹³

In TA34-998, AUSAC estimated a distribution shortage of \$9,774,375.¹⁴ In TA35-998, AUSAC estimates a distribution shortage of \$10,132,233 based on actual shortage information.¹⁵ Table 2 below demonstrates how AUSAC calculated the Cash Working Capital Adjustment Factor in TA34-998 and in TA35-998.

Table 2

	Cash Working Capital Adjustment Factor	TA35-998	TA34-998
1	Estimated AUSAC Monthly Expenses ¹⁶	\$1,956,355	\$1,957,022
2	Cash Working Capital Factor	1.5	1.5
3	Cash Working Capital (Line 1 x Line 2)	\$2,934,533	\$2,935,533
4	2020 Distribution Shortage	(\$10,132,233)	(\$9,774,375)
5	Cash Working Capital Adjustment Factor (Line 3 – Line 4)	(\$13,066,766)	(\$12,708,908)

As demonstrated above, the annual projected revenue balance will not meet AUSAC's estimated monthly expenses without the cash working capital factor. Staff believes that the working capital adjustment factor is concluded to accurately calculate what the surcharge would need to be to avoid a shortfall absent the 10% cap placed on the surcharge by 3 AAC 53.340(d).

Estimated Gross Annual End User Revenues (AUSF Contribution Base) (Line 12)

AUSAC predicts that the estimated gross end user revenues, on which the AUSF surcharge is assessed, will decrease in 2021. AUSAC projects a \$121,337,241 contribution base for 2021. This compares to the contribution base of \$138,179,710 projected in TA34-998.

Wireless Revenue

AUSAC attributed the unexpected reduction to the end user revenues prompting this mid-course correction to a decrease in reported wireless revenues beginning with the August 2020 period.¹⁷ AUSAC stated that the decline was identified through its monthly revenue review process, which was completed by the AUSAC Board of Directors on February 18, 2021.¹⁸ AUSAC estimates a decrease of 13.96% to the 2021 total revenue due to the decline in the midcourse reported

18, 1999.

¹³Conversely, if the estimated cumulative AUSF balance is projected to be at a deficit at year-end, the Cash Working Capital Allowance is increased by the forecasted deficit.

¹⁴TA34-998, Attachment A, Schedule 8.

¹⁵TA35-998, Schedule 8.

¹⁶In TA34-998, AUSAC based the monthly expenses on 1/12 of the 2020 support for ENS, DEM, and AUSAC approved in TA31-998.

¹⁷TA35-998 at 1. AUSAC stated the decline in wireless revenue was due to a wireless carrier implementing upgrades to their billing system beginning with the August 2020 period. Staff has alerted the Commission to this billing system overhaul in prior correspondence. The wireless carrier in question has not been identified.

¹⁸See Alaska Universal Service Administrative Company Board Meeting Packet (02, filed February 18, 2021.

wireless revenues.¹⁹ AUSAC stated that the midcourse reported revenues included an adjustment to the wireless revenue, for the periods of August 2018 through July 2019, based on the company's average monthly revenue reported under the billing system upgrades.²⁰ Table 3 below shows a comparison of the projected wireless revenue in TA34-998 and after the midcourse recalculation.

Table 3

Wireless Revenue	TA35-998	TA34-998
Total Reported Revenues 8/1/2019 - 7/31/2020	\$54,556,753.75	\$61,050,103.75
Total Reported Revenues 8/1/2018 - 7/31/2019	\$73,926,635.71	\$67,497,886.71
Percent Change	(26.20%)	(9.55%)

Retention of Current Surcharge Rate

AUSAC recalculated a surcharge factor of 29.8% for 2021, which as noted exceeds the cap established in 3 AAC 53.340(d). Accordingly, AUSAC does not request any change to the currently approved surcharge factor of 10%.²¹

Staff believes that AUSAC's indication to retain a surcharge factor of 10%, regardless of the revised calculated surcharge factor, which is above the cap established in 3 AAC 53.340(d), is consistent with the regulation. Staff notes that while there are no tariff sheets to approve with this filing, the information demonstrating a marked decline in the reported revenues that supports the AUSF as well as the accelerating AUSF distribution shortage resulting from the capped surcharge, to Staff, brings into sharp focus the revenue and/or expenditure problems with the AUSF in advance of the July 2021 sunset review process.

CONCLUSION

Staff has reviewed the midcourse adjustment of the 2021 surcharge factor proposed by AUSAC in TA35-998, and believes that they accurately reflect the requirements found under revised 3 AAC 53.340(d). Therefore, Staff recommends the Commission acknowledge the midcourse calculation for the 2021 AUSF surcharge factor. In addition, Staff recommends the Commission retain the capped ten percent surcharge factor for the 2021 AUSF established by regulation.

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¹⁹TA35-998, Schedule 7. In TA34-998, AUSAC estimated a decrease of 6.33% to the 2021 total revenue.

²⁰TA35-998, Schedule 7.

²¹See [L2000398](#), dated November 5, 2020, in TA34-998.